



SF 2309 – Biofuel Tax Incentives (LSB5598SZ)

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Fiscal Note Version – New

Description

Senate File 2309 relates to biofuel (ethanol and biodiesel) tax incentives. The bill:

- Extends the production payment currently available for biodiesel manufacturers located in Iowa. The payment is equal to \$0.02 per gallon produced, up to a total of 25.0 million annual gallons for each manufacturing facility. The payment, set to expire January 1, 2018, is extended seven years to January 1, 2025.
- Extends the E-15 Plus Gasoline Promotion Tax Credit expiration date seven years from the current January 1, 2018, date to January 1, 2025.
- Extends the E-85 Gasoline Promotion Tax Credit expiration date seven years from the current January 1, 2018, date to January 1, 2025.
- Extends the Biodiesel Blended Fuel Tax Credit expiration date seven years from the current January 1, 2018, date to January 1, 2025.
- Increases the Biodiesel Blended Fuel Tax Credit for biodiesel blends of B-11 or greater (currently \$0.045 per blended gallon) to \$0.055 per blended gallon. This change is effective January 1, 2018.
- Decreases the Biodiesel Blended Fuel Tax Credit for biodiesel blends classified as B-5 or higher but not as high as B-11 (currently \$0.045 per blended gallon) to \$0.035 per blended gallon. This change is effective January 1, 2018.

Background

The E-15, E-85, and Biodiesel Blended Fuel Tax credits are funded through the individual and corporate income tax process. The tax credits are refundable. As refundable credits, they do not impact the calculation of the local option income surtax for schools. The biodiesel production payment is funded through a sales tax refund process that is also refundable.

Iowa taxes diesel fuel that contains 10.0% biodiesel (B-10) or less at \$0.325 per gallon. Iowa taxes diesel fuel with biodiesel content greater than 10.0% at a rate \$0.03 per gallon lower, or \$0.295 per gallon.

Iowa taxes gasoline that does not contain at least 9.0% ethanol (E-9) at \$0.308 per gallon. Iowa taxes gasoline that does contain ethanol at a rate \$0.015 per gallon lower, or \$0.293 per gallon.

Revenue raised by the state tax on gasoline and diesel fuel is deposited in the Road Use Tax Fund.

Assumptions

All gasoline and diesel fuel gallon projections were provided by the Department of Revenue and are based on:

- Historical tax credit usage and redemption patterns
- The 2015 Iowa Retailers' Fuel Gallons Annual Report
- Fuel demand forecasts from the U.S. Energy Information Administration

For the projection, extension of the two ethanol tax credits is not assumed to impact the percentage of gallons sold in Iowa that are blended with ethanol. Therefore, the ethanol tax credit extensions are not projected to have an impact on the Road Use Tax Fund.

Increasing the tax credit available for biodiesel blends in excess of B-10 is projected to increase the number of diesel gallons sold at the \$0.295 diesel tax rate and decrease the number of gallons sold at the \$0.325 diesel tax rate. The Department of Revenue projects that the higher tax credit incentives available for diesel blends in excess of B-10 will result in an annual average of 55.7 million diesel gallons shifting from B-10 or lower gallons to gallons that are blends higher than B-10. Of those 55.7 million average annual gallons, 42.9 million (77.0%) are expected to be gallons subject to the state diesel fuel tax. At a tax rate differential of \$0.03 per gallon, the shift to blends higher than B-10 will decrease Road Use Tax Fund fuel tax revenue by \$1.3 million per calendar year through the end of calendar year 2024.

Fiscal Impact

This bill has four separate General Fund fiscal impacts. All four impacts are projected to reduce net General Fund revenue through the redemption of refundable tax credits.

- Extension of the biodiesel production payment
- Extension of the E-15 Plus Gasoline Tax Credit
- Extension of the E-85 Gasoline Promotion Tax Credit
- Extension and tax credit rate changes for the Biodiesel Blended Fuel Tax Credit

The projected reduction in net General Fund revenue for each provision, as well as the summed total, is presented in the following table.

Projected Reduction in General Fund Revenue					
In millions. Due to rounding, rows and columns may not add to totals.					
	Biodiesel Production Payment	E-15	E-85	Biodiesel Blended Fuel Tax Credit	Total Impact
FY 2016	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
FY 2017	0.0	0.0	0.0	0.0	0.0
FY 2018	0.9	0.0	0.0	0.0	0.9
FY 2019	4.0	0.1	0.6	3.2	7.9
FY 2020	4.1	0.6	2.7	16.5	23.8
FY 2021	4.1	0.7	3.1	17.1	25.0
FY 2022	4.2	0.8	3.4	17.3	25.6
FY 2023	4.2	0.8	3.7	17.6	26.4
FY 2024	4.3	0.9	4.0	17.9	27.1
FY 2025	3.2	1.0	4.3	18.1	26.5
FY 2026	0.0	0.8	3.6	14.8	19.6
FY 2027	0.0	0.1	0.3	0.5	0.9
Total	<u>\$ 29.0</u>	<u>\$ 5.9</u>	<u>\$ 25.7</u>	<u>\$ 122.9</u>	<u>\$ 183.8</u>

The bill also impacts the Road Use Tax Fund. The increased incentive available for biodiesel blended fuel in excess of B-10 is projected to reduce diesel fuel sales subject to the \$0.325 per gallon tax rate and increase sales subject to the \$0.295 tax rate. This projected shift will result in lower revenue from the tax on diesel fuel. The projected impact is a reduction in Road Use Tax Fund revenue of \$1.3 million per calendar year. By fiscal year, the projected reduction equals:

- FY 2018 – \$413,000
- FY 2019 through FY 2024 – \$1.3 million per year
- FY 2025 – \$885,000

Sources

Iowa Department of Revenue
2014 Iowa Retailers' Fuel Gallons Annual Report
U.S. Energy Information Administration

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
